EXPLANATORY MEMORANDUM TO

THE CAR AND VAN FUEL BENEFIT ORDER 2010

2010 No. 406

1. This explanatory memorandum has been prepared by HM Revenue and Customs (HMRC) and is laid before the House of Commons by Command of Her Majesty.

This memorandum contains information for the Select Committee on Statutory Instruments.

2. Purpose of the instrument

2.1 This instrument increases the multiplier, the figure in section 150(1) of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) used to calculate the cash equivalent of the benefit of car fuel received by an employee, from £16,900 to £18,000, and increases the figure in section 161 of ITEPA used to calculate the cash equivalent of the benefit of van fuel received by an employee from £500 to £550.

3. Matters of special interest to the Select Committee on Statutory Instruments

3.1 None.

4. Legislative Context

4.1 This Order is made by HM Treasury under section 170(5) and (6) ITEPA. It is the first use of that power to raise the cash equivalent for van fuel.

4.2 Where an employee receives fuel which is available for private use without charge from their employer or otherwise by reason of their employment, there is a chargeable benefit in kind generally known as the fuel benefit charge (see section 149 ITEPA for cars and section 160 ITEPA for vans).

4.3 For cars, the cash equivalent of the benefit (needed to determine income tax assessable on the individual and the level of Class 1A NICs payable by the employer) is calculated by applying the appropriate percentage (normally based on the car's CO_2 emissions) to a notional annual value (the multiplier) for the fuel. For vans, the cash equivalent is based on a flat-rate figure.

4.4 This instrument increases the multiplier in respect of fuel for cars from £16,900 to £18,000, and increases the flat-rate figure for vans from £500 to £550 with effect from 6 April 2010.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Exchequer Secretary has made the following statement regarding Human Rights:

In my view the provisions of the Car and Van Fuel Benefit Order 2010 are compatible with the Convention rights.

7. Policy background

- ***What is being done and why***

7.1 Free fuel incentivises unnecessary motoring, which is contrary to the Government's environmental objectives. Taxing the benefit-in-kind represented by free fuel therefore serves to discourage unnecessary driving. The changes are consistent with the broader environmental narrative of encouraging a transition to lower-carbon transport by incentivising through tax changes the uptake and use of lower-emitting company cars.

7.2 The current system for valuing the benefit for cars from free fuel, based on the multiplier and the appropriate percentage was introduced by section 34 of the Finance Act 2002. This replaced previous fuel scale charges. The multiplier was originally set at £14,000 for the years 2003-04 to 2007-08 and increased to £16,900 for the year 2008-09 onwards. The benefit charge reflects a notional value for the fuel received.

7.3 Legislation introducing a flat-rate fuel charge for vans was introduced by section 80 of the Finance Act 2004. This was originally set at £0 for the years 2005-06 to 2006-07 and £500 for the years 2007-08 and onwards.

7.4 Budget 2008 announced that in future the car fuel benefit charge multiplier would increase at least in line with inflation each year. Increasing the car fuel benefit charge multiplier and the van fuel benefit charge, in line with this policy, will strengthen the disincentive to unnecessary driving. Employees who do not wish to pay this charge can simply opt out of receiving free fuel and instead buy their own fuel. There are existing provisions for reclaiming the cost of business mileage in company cars.

7.5 The Government announced the changes in the 2009 Pre Budget Report. This Order gives effect to that announcement.

8. Consultation outcome

8.1 Consultation was not appropriate.

9. Guidance

9.1 The change was announced at Pre-Budget Report and the relevant HMRC guidance will be amended in line with this Order.

10. Impact

10.1 An Impact Assessment has not been produced for this instrument as it has a negligible impact on business, charities or voluntary bodies.

10.2 The impact on the public sector is negligible – we are not aware of any public sector employers who provide free fuel for private use.

11. Regulating small business

11.1 The legislation applies to small business.

12. Monitoring & review

12.1 HMRC will continue to monitor fuel benefit charges and will legislate to amend the charges if it is appropriate.

13. Contact

Mrs Su McLean-Tooke
1E/07
100 Parliament Street
London
SW1A 2BQ

Tel: 020 7147 2665
Email: susan.mclean-tooke@hmrc.gsi.gov.uk